The following is copy of a letter from Secretary McAdoo to Senator Pittman:

March 30, 1918.

Honorable Key Pittman,
United States Senate,
Washington, D. C.

My dear Senator:

I have examined the draft of a bill embodying the ideas which have been discussed between us for the utilization of the silver now lying unused in the Treasury of the United States. I venture to recapitulate briefly the purposes to be accomplished by the bill, and the reasons, which, in my judgment, require its enactment.

The annual production of silver has varied in recent years, having fluctuated from 160,000,000 ounces to 226,000,000 ounces per annum according to the estimates of the Director of the Mint. Production for the year 1916 amounted to 156,600,000 ounces, and for the year 1917 is estimated to be approximately 160,000,000 ounces. The decline in production during recent years has been partly due to conditions in Mexico, as the result of which Mexican mines have not been operated to their full capacity. The price of silver has varied from about 48½ cents per fine ounce, at which price it sold during August, 1915, to $1.18 per fine ounce during September, 1917. Apart from industrial requirements, estimated at about 100,000,000 ounces per annum, silver is used by all nations for subsidiary coinage and by India and other Oriental countries for major coinage. In China uncoined silver circulates as money.

The European War has greatly enlarged the demand for silver. European countries engaged in the conflict have required unusual quantities of silver coins for their armies and for the civil population. Buying power of Oriental countries has been greatly enlarged, and as the importation of commodities has been limited owing to war needs of the belligerents, that buying power has been exercised to acquire silver.

China and India are the two oriental countries that absorb the largest amounts of silver. The products of India are wheat, jute, burlap, etc. The demand for Indian products has been unusual. Jute bagging is used for sugar, grain, and fertilizer bags, also as outside wrappers for cotton and other products. It is also used for trench bags and for packing many articles of military necessity. No article has been found that will serve as a substitute.

The Orient is willing to accept silver in place of gold for commodities furnished by them, and it is to the interest of the United States and its allies that foreign trade balances should, as far as possible, be settled in silver rather than in gold. The gold in this country and in the hands of its allies is needed as a base for the enormous credit structure it is necessary to erect in the process of placing Government loans, and every ounce of silver that can be used in the settlement of foreign balances is so much gained. It is better to settle trade balances by shipping silver, than to make arrangements for stabilizing exchange, where these are possible, as they are not in the Orient, because these exchange arrangements whatever their form, always mean a deferred demand for gold, while the settlement of foreign balances in silver is a definitive settlement, calling for no future adjustments. Further, the unprecedented business activity in this country has caused an unusual demand for silver for subsidiary coinage, the needs of the United States for this purpose during the present year being greater than ever before, amounting as they do, to approximately 21,250,000 ounces.

There are now in the Treasury of the United States approximately 490,000,000 of Standard Silver Dollars, containing approximately 375,000,000 ounces of fine silver. Against these Standard Silver Dollars there are outstanding silver certificates, and so long as these Silver Certificates remain outstanding, a corresponding amount of Silver Dollars must be held for their redemption.

The proposal is now made to borrow from the Treasury, for the purposes stated above, a portion of the silver so held in the Treasury, but only upon the cancellation from time to time of a corresponding amount of outstanding Silver Certificates. The silver having been so borrowed and used, the Secretary of the Treasury is required to re-purchase from time to time at the fixed price of $1. per fine ounce, an amount of silver equal to the silver so borrowed and used, and to recoin that Silver into Standard Silver Dollars, thus in time replacing in the Treasury the silver so withdrawn. In this way the large mass of silver, which is serving no useful active purpose, now can be made available for a direct war purpose. There is no intention of making any permanent change in the status of the Silver Certificates. The proposition is, in brief, to retire Silver Certificates; to borrow from the Treasury the silver for use for the war purposes above set forth; and then, as silver from time to time in the future comes on the market, to replace the silver so borrowed by purchase in the market at the fixed price of $1. per fine ounce and to replace the borrowed silver by coining the new silver acquired for that purpose into Standard Silver Dollars. There is no limit of time within which this must be done.

The cost of producing silver, like the cost of producing all other commodities, has greatly increased. Labor is receiving very much higher wages than during normal times. Machinery is more expensive, and the chemicals and other supplies needed in the production of silver are all correspondingly higher in price. The price at which the silver is to be rebought has been fixed in the proposed bill at $1. per ounce. This price was arrived at after an examination by the Director of the Mint into the cost of producing silver, in a number of different mines, and the Director of the Mint is of the opinion that $1. per fine ounce under all the conditions at present prevailing is a fair price. The silver released through the retirement of Silver Certificates will be sold by the Secretary of the Treasury for the war purposes stated, at a price that will permit him without loss to rebuy at the price of $1. an ounce, the silver thus sold.

The proposed measure is unquestionably in the interest of the country as a whole for the prosecution of the war. It proposes no permanent change in our existing currency arrangements. What is proposed is a temporary change, consisting of the active use for war purposes of the silver now lying inert in the Treasury. The bill provides within itself the steps necessary to reverse that position and to replace and recoin the silver.

The arrangement proposed is purely a temporary arrangement and the pressing needs of the United States require, in my opinion, its prompt enactment into law.

Sections 5, 6, 7, and 8 seem to me the best way of dealing with the contraction of the circulating medium which would otherwise be bought about through the cancellation of Silver Certificates. This is accomplished by authorizing an issue of Federal Reserve Bank Notes in small denominations in order to fill the void occasioned by the retirement of Silver Certificates and provides for the prompt retirement of those Federal Reserve Bank Notes as Silver Certificates are from time to time re-issued. There may well be differences of opinion as to the best method of counteracting such contraction. If no method of meeting the contraction be provided, the contraction will be automatically relieved through the issue of legal tender notes in denominations of 1's and 2's. Federal Reserve Notes taking the place of the legal tender notes. This would be perhaps the easiest way of meeting the situation were it not for the fact that Federal Reserve notes are now secured by gold reserve of over 60% and the issue of additional Federal Reserve Notes without a corresponding addition to the gold reserve would reduce the percentage of reserve. Federal Reserve Bank Notes, on the other hand, require a reserve of but 5% and as there is absolutely no reason why a larger reserve for Federal Reserve Bank Notes should be provided, it seems to me unwise to reduce the percentage of reserve under Federal Reserve Notes. My reason for stating that the Federal Reserve Bank Notes, the issue of which is contemplated under the Bill, require no greater reserve than 5% is that those Notes in small denominations will merely take the place in the pockets of the people of the Silver Certificates now carried by them and are thus extremely unlikely to be

presented for redemption. If, and to the extent that they are presented for redemption, it will be a demonstration that these Notes are not needed in the circulation and the means for their prompt retirement is furnished by the deposit as security for these Federal Reserve Bank Notes of short time Certificates of Indebtedness or the One Year Conversion Notes of the United States. Whenever, therefore, these Federal Reserve Bank Notes are presented for redemption, it will only be necessary to let the maturing obligations held against them run off. The popular and well founded feeling against a bond secured currency therefore, does not apply to the present issue, because (1) the issue is strictly temporary in its nature, (2) the security behind the issue automatically provides for the redemption of the issue, (3) no artificial value is given to any long time bonds by the circulation privilege and no vested interest is created in the circulation privilege, which, if created, it might prove burdensome for the Government or the banks to abate.

If the method suggested for dealing with the replacement of the silver certificates that may be retired does not commend itself to you as the best manner of meeting the situation, I should be glad to discuss any modifications that may be thought advisable.

Cordially yours,

(Signed) W. G. McAdoo.